

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period January 6, 2003  
Through April 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
ROWAN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period January 6, 2003  
Through April 30, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Rowan County Sheriff for the period January 6, 2003 through April 30, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$805,658 for the districts for 2002 taxes for the period January 6, 2003 through April 30, 2003, retaining commissions of \$32,969 to operate the Sheriff's office. The Sheriff distributed taxes of \$769,357 to the districts for 2002 Taxes. Taxes of \$754 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff's Tax Settlement Should Be Published
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Clyde A. Thomas, Rowan County Judge/Executive

Honorable Jack Carter, Rowan County Sheriff

Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the Rowan County Sheriff's Settlement - 2002 Taxes for the period January 6, 2003 through April 30, 2003. This tax settlement is the responsibility of the Rowan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rowan County Sheriff's taxes charged, credited, and paid for the period January 6, 2003 through April 30, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Tax Settlement Should Be Published
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long, sweeping horizontal line extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 9, 2003



ROWAN COUNTY  
JACK CARTER, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

April 30, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 53,416	\$ 63,738	\$ 386,766	\$ 142,017
Increases Through Exonerations	8	9	56	19
Franchise Corporation	37,286	39,434	204,790	
Additional Billings	294	322	1,784	1,513
Clay Reserves	38	46	281	96
Bank Franchises	17,613			
Penalties	4,168	4,801	28,080	7,897
	<u>112,823</u>	<u>108,350</u>	<u>621,757</u>	<u>151,542</u>
Gross Chargeable to Sheriff	\$	\$	\$	\$
	<u>112,823</u>	<u>108,350</u>	<u>621,757</u>	<u>151,542</u>
<u>Credits</u>				
Exonerations	\$ 400	\$ 459	\$ 2,639	\$ 1,397
Discounts	2	3	17	14
Delinquents:				
Real Estate	14,633	17,557	107,233	36,464
Tangible Personal Property	667	681	3,311	3,125
Intangible Personal Property				207
Uncollected Franchise	1	1	3	
	<u>15,703</u>	<u>18,701</u>	<u>113,203</u>	<u>41,207</u>
Total Credits	\$	\$	\$	\$
	<u>15,703</u>	<u>18,701</u>	<u>113,203</u>	<u>41,207</u>
Taxes Collected	\$ 97,120	\$ 89,649	\$ 508,554	\$ 110,335
Less: Commissions *	4,128	3,810	20,342	4,689
	<u>92,992</u>	<u>85,839</u>	<u>488,212</u>	<u>105,646</u>
Taxes Due	\$ 92,992	\$ 85,839	\$ 488,212	\$ 105,646
Taxes Paid	92,723	85,530	486,358	104,746
Add Penalty (KRS 46.990)				28
Less Refunds (Current and Prior Year)	216	253	1,521	616
	<u>216</u>	<u>253</u>	<u>1,521</u>	<u>616</u>
Due Districts as of		**		
Completion of Fieldwork	\$ 53	\$ 56	\$ 333	\$ 312

\* Commissions:

4.25% on \$ 297,104

4% on \$ 508,554

\*\* Special Taxing Districts:

Library District

\$ 26

Health District

30

Due Districts

\$ 56

The accompanying notes are an integral part of the financial statement.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENTS

April 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 30, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2003  
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2003 through April 30, 2003.

Note 4. Interest Income

The Rowan County Sheriff earned \$101 as interest income on 2002 taxes for the period January 6, 2003 through April 30, 2003. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 9, 2003, the Sheriff owed \$40 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rowan County Sheriff collected \$28,740 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Rowan County Sheriff collected \$1,679 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). As of October 9, 2003, the Sheriff owed \$1,679 in advertising costs and fees to his fee account, since advertising costs were paid from the Sheriff's fee account.

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## COMMENTS AND RECOMMENDATIONS



ROWAN COUNTY  
JACK CARTER, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 6, 2003  
Through April 30, 2003

STATE LAWS AND REGULATIONS:

The Sheriff's Tax Settlement Should Be Published

The Sheriff's 2002 tax settlement was not published. KRS 134.310(2) requires the settlement to be published pursuant to KRS Chapter 424. We recommend the Sheriff begin publishing his tax settlement annually.

*Sheriff's Response:*

*We will publish in future.*

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's office internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the official
- Periodic Surprise cash counts by the official
- Agree daily tax collection totals to receipts ledger and deposit slip
- Agree monthly tax reports to receipts ledger and disbursements ledger
- All disbursement checks are to be signed by two people and one being the official
- Official delivers tax distribution checks and monthly tax reports to taxing districts
- The official or someone independent of the Sheriff's Office prepare the bank reconciliation

*Sheriff's Response:*

*Will try to do this.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Honorable Clyde A. Thomas, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rowan County Sheriff's Settlement - 2002 Taxes for the period January 6, 2003 through April 30, 2003, and have issued our report thereon dated October 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's Settlement - 2002 Taxes as of April 30, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff's Tax Settlement Should Be Published

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
October 9, 2003

